

Sun Pharmaceuticals

Performance Highlights

Y E March (Rs cr)	1QFY2011	4QFY2010	% chg qoq	1QFY2010	% chg yoy
Net sales	1,400	1,109	26.2	781	79.2
Other income	12	14	(16.0)	60	(80.9)
Gross profit	1,064	843	26.2	521	104.3
Operating profit	616	419	47.2	122	405.1
Net profit	565	394	43.2	157	258.6

Source: Company, Angel Research

Sun Pharma reported stellar 1QFY2011 results driven by one-off sales of the generic version of *Eloxatin*. Excluding the one-off, recurring numbers were marginally ahead of our estimates driven by strong adjusted domestic and ex-US formulation sales. For FY2011, the company has reiterated its guidance of 18-20% growth in top-line, implying single-digit growth for remaining FY2011.

We maintain our Neutral view on the stock owing to fair valuations.

Results driven by one-off: Sun reported net sales of Rs1,400cr (Rs781cr), up 79.2% yoy driven by one-time sales of generic version of *Eloxatin*. Recurring sales came in at Rs997cr and was ahead of our estimates on the back traction in the domestic and ex-US formulation markets. Excluding the one-off, the company recorded OPM of 35.2%, which was ahead of our estimate of 34.2% on lower employee expenses. Recurring net profit grew by healthy 87.6% yoy.

Outlook and Valuation: We expect Sun Pharma's net sales to post a CAGR of 16.6% to Rs5,581cr and EPS to register CAGR of 14.0% to Rs84.8 over FY2010-12E. The stock is trading at 24.8x and 20.9x FY2011E and FY2012E earnings, respectively. We remain Neutral on the stock. Key upside risks to our estimates include: 1) Completion of Taro acquisition, and 2) Any further acquisitions given high cash balance on the books of Rs4,000cr.

Key Financials

Y E March (Rs. cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	4,273	4,103	4,830	5,581
% chg	27.3	(4.0)	17.7	15.6
Net Profit	1,818	1,351	1,483	1,756
% chg	20.7	(25.7)	9.8	18.4
EPS (Rs)	87.8	65.2	71.6	84.8
EBITDA Margin (%)	43.6	33.2	32.5	33.5
P/E (x)	20.2	27.2	24.8	20.9
RoE (%)	30.2	17.8	17.1	17.7
RoCE (%)	27.4	15.3	15.6	16.4
P/BV (x)	5.2	4.5	4.0	3.5
EV/Sales (x)	8.3	8.4	7.1	6.0
EV/EBITDA (x)	18.9	25.4	21.8	17.9

Source: Company, Angel Research

NEUTRAL

CMP	Rs1,775
Target Price	-

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (Rs cr)	36,771
Beta	0.3
52 Week High / Low	1846/1118
Avg. Daily Volume	27031
Face Value (Rs)	5
BSE Sensex	17,992
Nifty	5,409
Reuters Code	SUN.BO
Bloomberg Code	SUNP@IN

Shareholding Pattern (%)	
Promoters	63.7
MF / Banks / Indian Fls	11.1
FII / NRIs / OCBs	19.6
Indian Public / Others	5.6

Abs. (%)	3m	1yr	3yr
Sensex	2.8	18.6	17.9
Sun Pharma	12.0	49.4	91.6

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Exhibit 1: 1QFY2011 performance (consolidated)

Y/E March (Rs cr)	1QFY2011	4QFY2010	% chg qoq	1QFY2010	% chg yoy	FY2010	FY2009	% chg
Net Sales	1,400	1,109	26.2	781	79.2	4,103	4,273	(4.0)
Other Income	11.5	13.7	(16.0)	60.3	(80.9)	205.3	208.5	(1.5)
Total Income	1,411	1,123		841	67.7	4,308	4,481	(3.9)
Gross profit	1,064	843	26.3	521	104.3	3,005	3,416	(12.0)
Gross margin (%)	76.0	76.0		66.7		73.2	79.9	
Operating profit	616	419	47.2	122	405.1	1,363	1,864	(26.9)
Operating margin (%)	44.0	37.7		15.6		33.2	43.6	
Interest	0	0		0		0	0	
Depreciation	40	42	(4.1)	38	7.0	153	123	24.3
PBT	588	390	50.5	145	306.0	1,415	1,950	(27.4)
Provision for Taxation	10	(1)	(869.8)	3	211.9	68	71	(4.6)
PAT before Extra-ordinary item	578	392	47.6	142	308.0	1,347	1,878	(28.3)
Minority Interest(MI)	(13)	3	-	16	-	4	(60)	
Extraordinary Item	0	0		0		0	0	
PAT after Extra-ordinary item & MI	565	394	43.2	157	258.6	1,351	1,818	(25.7)
EPS (Rs)	27.3	19.0		7.6		65.2	87.8	

Source: Company, Angel Research

Exhibit 2: 1QFY2011- Actual v/s Angel estimates

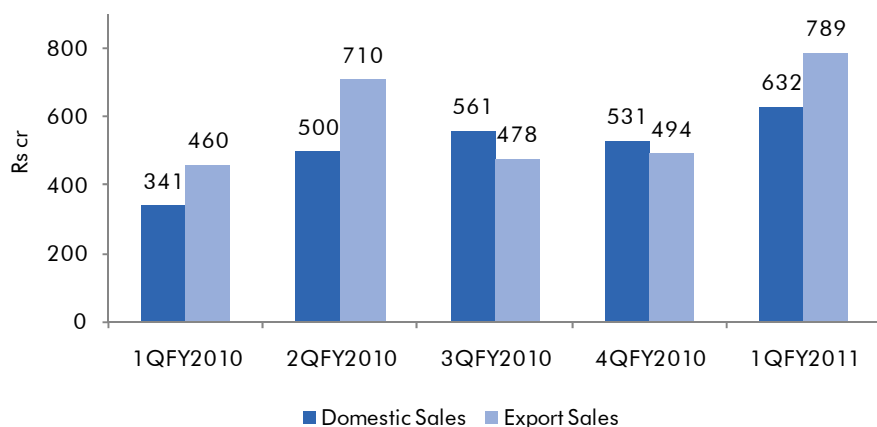
Rs cr	Actual	Estimates	Variance (%)
Net sales	1,400	950	47.3
Other income	12	18	(35.9)
Operating profit	616	325	89.6
Tax	10	12	(19.2)
Net profit	565	308	83.3

Source: Company, Angel Research

Revenues driven by one-off: Sun reported net sales of Rs1,400cr (Rs781cr), up 79.2% yoy driven by one-time sales of generic version of *Eloxatin*, building up inventory in the channel. We expect the product to have contributed Rs414cr (US \$90mn) to top-line. The company has stopped selling the generic version of *Eloxatin* from June 30, 2010 post the adverse court decision. Recurring sales came in at Rs997cr and was ahead of our estimates on back of strong domestic and ex-US formulation markets. On the export formulation front, excluding *Eloxatin*, sales came in at Rs264cr (Rs340cr). During the quarter, Sun received 7 ANDA approvals and filed 4 ANDAs with 120 ANDAs pending approval. Further, formulation sales, ex-US, grew by a stellar 23% to Rs130cr. The export API segment de-grew by 7.2% to Rs110.4cr (Rs119.0cr) on pricing pressure.

On the domestic front, sales grew 91.1% to Rs598cr (Rs313cr) on a low base. Adjusting for the low base, sales grew 18.9% yoy, which was higher than our estimates. Sun launched 10 new products during the quarter and has a sales force of 2,600MRs.

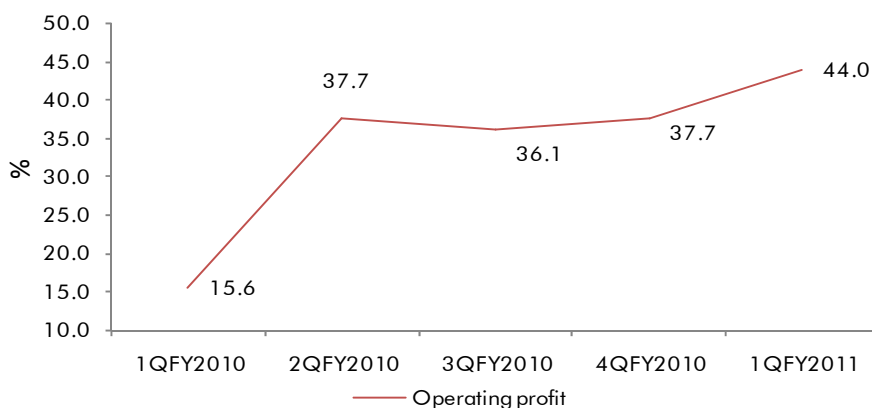
Exhibit 3: Sales trend



Source: Company, Angel Research

Recurring OPM boosted by lower expenses: For the quarter, the company clocked OPM of 44.0% (15.6%) driven by sales of the generic version of *Eloxatin*. Excluding the one-off, the company recorded OPM of 35.2%, which was ahead of our estimates of 34.2% on back of lower employee expenses. In 1QFY2011, employee expenses came in flat at Rs125cr (Rs125cr) as impact of increments is expected to come in the remaining part of the year. Further, R&D expenses declined 24.6% yoy to Rs56cr (Rs74cr) due to reduction in R&D work at Caraco.

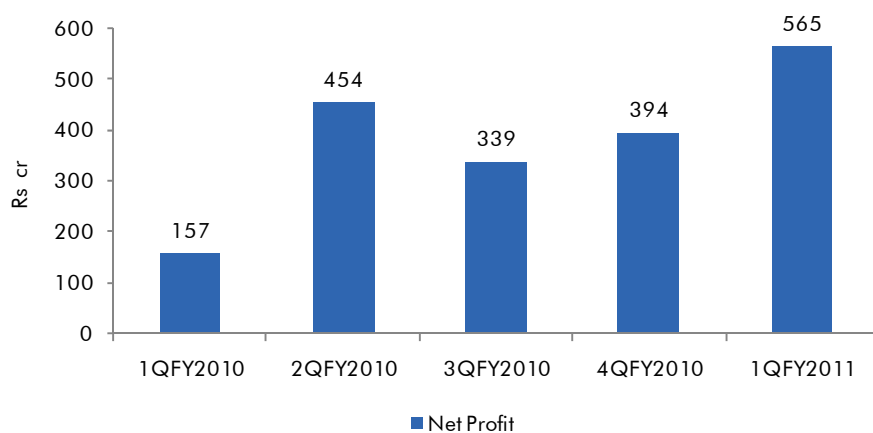
Exhibit 4: OPM trend



Source: Company, Angel Research

Recurring net profit primarily in-line with estimates: Sun reported net profit of Rs565cr (Rs157cr), up 258.6% yoy. Excluding the one-off, recurring net profit came in at Rs295cr and was primarily in-line with our estimates on back of lower other income.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall takeaways

- Sun has reiterated its guidance of 18-20% growth in top-line for FY2011 post the stellar 1QFY2011 performance, which implies single-digit growth for remaining FY2011.
- On Gemzaar, the company indicated that it does not hold the FTF status and expects to launch the generic version of the product in FY2012 post expiry of 6 months exclusivity.
- The company had cash of Rs4,000cr at the end of the quarter.

Recommendation Rationale

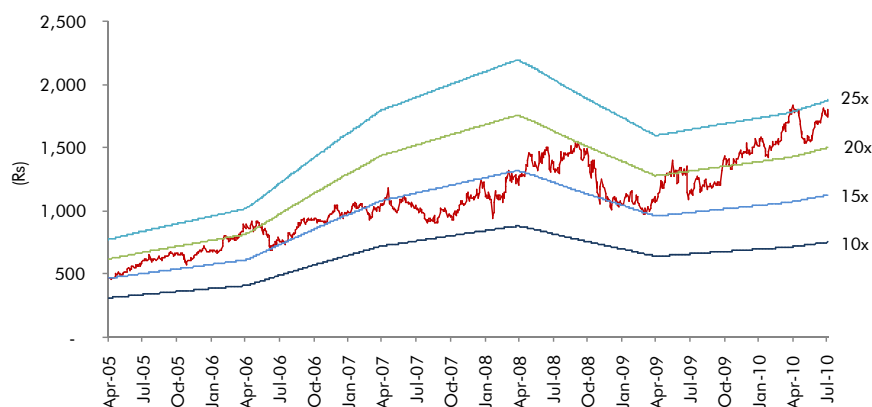
- **Strongest ANDA pipeline:** Sun Pharma's US business has posted CAGR of 33% over last five years and currently contributes 30% to total turnover in FY2010. Sun along with Caraco now has 120 ANDAs pending US FDA approval, which is one of the highest in the India Pharma space. Sun Pharma has filed 30 or more ANDAs in each of the past few years. The company indicated that it would file 30 ANDAs in FY2011 as well. Some of the key products for Sun Pharma with limited competition includes generic version of Stalevo, Gabitril, Exelon, Strattera and Gleevec. On the Caraco front, management seems confident of resolution of the US FDA issue in FY2011. The company has submitted a remediation work plan to the US FDA on Caraco and the same has been approved.
- **Domestic business:** Sun Pharma's domestic formulation business has grown above the industry average over the last five years at a CAGR of 24%, and contributed 45% to the total turnover in FY2010. The company has strength of 2,600MRs and one of the highest field force productivity of around of Rs70 lakh/MR per annum, which has resulted into high margins from the segment. The company has a market share of around 3.7% with exposure to psychiatry, neurology, CVS, diabetic and gastroenterology. Sun Pharma launched 49 products in the domestic market in FY2010.
- **Healthy balance sheet:** Sun Pharma has one of the strongest balance sheet in the sector with cash of around Rs4,000cr (~11% of Mcap). The company has indicated that it is looking at inorganic growth and scouting for acquisitions especially in the US region. On the Taro acquisition, Sun Pharma is awaiting verdict from the Supreme Court of Israel, after getting a favorable verdict from the lower court of Israel and US court. Completion of Taro acquisition would be a positive for the company, as it would enhance its product portfolio and distribution network in the largest pharmaceutical market globally, the US.
- **Valuation:** Sun Pharma is one of the largest and fastest growing Indian pharmaceutical companies. Sun Pharma has guided for a stellar 18-20% growth in top-line for FY2011, with OPM in the historic range. Further, the company expects R&D expenses to be in range of 7-8% of net sales and capex at Rs200cr for FY2011. We expect Sun Pharma's net sales to post a CAGR of 16.6% to Rs5,581cr and EPS to clock CAGR of 14.0% to Rs84.8 over FY2010-12E. The stock is trading at 24.8x and 20.9x FY2011E and FY2012E earnings, respectively. We remain Neutral on the stock. Key upside risks to our estimates include: 1) Completion of Taro acquisition; and 2) Any further acquisitions given high Cash balance on the books of Rs4,000cr.

Exhibit 6: Key assumptions

	FY2011E	FY2012E
Domestic Sales Growth (%)	16.5	17.4
Export Sales Growth (%)	20.6	13.8
Growth in Employee Expenses (%)	15.1	15.5
Operating Margins (excl operating income) (%)	32.5	33.5
Capex (Rs cr)	200	200

Source: Company, Angel Research

Exhibit 7: One-year forward PE band



Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP (Rs)	Tgt Price (Rs)	Upside %	PE (x)	FY2012E		FY10-12E	FY2012E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE	ROE
Alembic	Buy	58	74	27	9.0	0.8	6.3	48.4	15.2	19.0
Aventis*	Reduce	1,899	1,658	(13)	20.6	3.0	16.1	16.1	0.2	18.9
Cadila Healthcare	Accumulate	640	714	12	16.1	2.6	12.6	26.6	26.0	34.7
Cipla	Accumulate	328	360	10	19.2	3.8	18.3	12.7	15.3	19.1
Dr Reddy's#	Neutral	1,374	-	-	17.6	2.3	11.9	93.5	24.7	25.2
Dishman Pharma	Buy	215	279	30	10.0	1.8	7.0	21.7	12.5	16.8
GSK Pharma*	Sell	2,025	1,700	(16)	27.4	6.1	17.4	11.0	38.7	28.9
Indoco Remedies	Buy	406	541	33	7.5	1.0	6.1	25.7	14.6	18.7
Ipca labs	Neutral	271	-	-	11.4	1.7	8.2	20.0	23.9	27.1
Lupin	Accumulate	1,905	2,099	10	16.3	2.6	13.5	23.2	23.9	31.2
Orchid Chemicals	Neutral	187	-	-	11.0	1.6	8.5	-	7.0	13.0
Piramal Healthcare	Neutral	487	-	-	14.4	2.2	10.7	21.1	25.4	32.7
Ranbaxy*	Neutral	442	-	-	15.4	1.9	9.8	100.9	19.9	21.6
Sun Pharma	Neutral	1,775	-	-	20.9	6.0	17.9	14.0	16.4	17.7

Source: Company, Angel Research; Note: # The current estimates are as per IGAAP; *December year ending

Profit & Loss Statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	2,079	3,357	4,273	4,103	4,830	5,581
Other operating income	1	2	4	-	3	3
Total operating income	2,080	3,359	4,276	4,103	4,832	5,584
% chg	30.3	61.5	27.3	(4.1)	17.8	15.6
Total Expenditure	1,407	1,805	2,408	2,740	3,261	3,713
Net Raw Materials	577	722	856	1,098	1,261	1,401
Other Mfg costs	106	132	202	-	228	263
Personnel	199	233	340	482	555	642
Other	525	718	1,011	1,160	1,217	1,406
EBITDA	672	1,551	1,864	1,363	1,569	1,869
% chg	37.0	130.7	20.2	(26.9)	15.1	19.1
(% of Net Sales)	32.3	46.2	43.6	33.2	32.5	33.5
Depreciation & Amortisation	81	97	123	153	151	163
EBIT	591	1,454	1,741	1,209	1,418	1,706
% chg	37.7	146.1	19.7	(30.5)	17.2	20.3
(% of Net Sales)	28.4	43.3	40.7	29.5	29.4	30.6
Interest & other Charges	-	-	-	-	-	-
Other Income	242	143	205	205	240	270
(% of PBT)	29.0	8.9	10.5	14.5	14.4	13.6
Recurring PBT	833	1,599	1,950	1,415	1,660	1,979
% chg	39.9	91.9	21.9	(27.4)	17.3	19.2
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	833	1,599	1,950	1,415	1,660	1,979
Tax	(6.7)	48.5	71.2	67.9	131.6	168.3
(% of PBT)	(0.8)	3.0	3.7	4.8	7.9	8.5
PAT (reported)	840	1,551	1,878	1,347	1,529	1,810
Less: Minority interest (MI)	56	64	60	(4)	46	54
PAT after MI (reported)	784	1,487	1,818	1,351	1,483	1,756
ADJ. PAT	784	1,487	1,818	1,351	1,483	1,756
% chg	37.1	89.6	22.3	(25.7)	9.8	18.4
(% of Net Sales)	37.7	44.3	42.6	32.9	30.7	31.5
Basic EPS (Rs)	40.5	71.8	87.8	65.2	71.6	84.8
Fully Diluted EPS (Rs)	40.5	71.8	87.8	65.2	71.6	84.8
% chg	112.3	77.0	22.3	(25.7)	9.8	18.4

Balance Sheet (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	97	104	104	104	104	104
Preference Capital	1	-	-	-	-	-
Reserves & Surplus	2,675	4,888	6,941	7,993	9,154	10,529
Shareholders Funds	2,773	4,991	7,045	8,096	9,257	10,632
Minority Interest	44	189	197	193	239	293
Total Loans	1,115	144	179	179	179	179
Deferred Tax Liability	89	9	(68)	30	29	39
Total Liabilities	4,021	5,333	7,353	8,498	9,704	11,143
APPLICATION OF FUNDS						
Gross Block	1,495	1,596	2,148	2,373	2,573	2,773
Less: Acc. Depreciation	474	561	685	824	976	1,138
Net Block	1,021	1,035	1,463	1,548	1,597	1,634
Capital Work-in-Progress	61	69	157	157	157	157
Goodwill	-	173	325	325	325	325
Investments	254	756	1,859	1,859	1,859	1,859
Current Assets	2,990	3,937	4,268	5,552	6,854	8,420
Cash	1,380	1,239	1,669	2,331	2,701	3,480
Loans & Advances	265	508	742	862	1,038	1,200
Other	1,345	2,190	1,857	2,359	3,115	3,740
Current liabilities	304	637	720	944	1,090	1,253
Net Current Assets	2,686	3,300	3,548	4,608	5,765	7,167
Total Assets	4,021	5,333	7,353	8,498	9,704	11,143

Cash Flow Statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	833	1,599	1,949	1,415	1,660	1,979
Depreciation	81	97	123	153	151	163
(Inc)/Dec in Working Capital	(536)	(934)	3	(397)	(787)	(623)
Direct taxes paid	9	182	169	-	133	158
Cash Flow from Operations	369	580	1,907	1,171	891	1,361
(Inc.)/Dec.in Fixed Assets	(229)	(200)	(590)	(225)	(200)	(200)
(Inc.)/Dec. in Investments	(100)	(500)	(974)	-	-	-
Cash Flow from Investing	(329)	(699)	(1,564)	(225)	(200)	(200)
Issue of Equity	505	(1)	-	-	-	-
Inc./(Dec.) in loans	(760)	(3)	35	-	-	-
Dividend Paid (Incl. Tax)	(148)	(2)	(242)	(284)	(322)	(381)
Others	212	(17)	295	-	-	-
Cash Flow from Financing	(193)	(22)	88	(284)	(322)	(381)
Inc./(Dec.) in Cash	(152)	(141)	430	662	369	779
Opening Cash balances	1,532	1,380	1,239	1,669	2,331	2,701
Closing Cash balances	1,380	1,239	1,669	2,331	2,701	3,480

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	43.8	24.7	20.2	27.2	24.8	20.9
P/CEPS	39.7	23.2	18.9	24.4	22.5	19.2
P/BV	12.4	7.4	5.2	4.5	4.0	3.5
Dividend yield (%)	0.8	0.6	0.8	0.7	0.7	0.9
EV/Sales	16.4	10.6	8.3	8.4	7.1	6.0
EV/EBITDA	50.7	23.0	18.9	25.4	21.8	17.9
EV / Total Assets	8.5	6.7	4.8	4.1	3.5	3.0
Per Share Data (Rs)						
EPS (Basic)	40.5	71.8	87.8	65.2	71.6	84.8
EPS (fully diluted)	40.5	71.8	87.8	65.2	71.6	84.8
Cash EPS	44.8	76.5	93.7	72.6	78.9	92.7
DPS	13.5	10.5	13.8	11.7	13.3	15.7
Book Value	143.4	241.0	340.1	390.9	446.9	513.3
Dupont Analysis						
EBIT margin	28.4	43.3	40.7	29.5	29.4	30.6
Tax retention ratio	-	97.0	96.3	95.2	92.1	91.5
Asset turnover (x)	0.9	1.0	0.9	0.7	0.7	0.8
ROIC (Post-tax)	-	41.9	34.3	19.4	19.8	21.3
Cost of Debt (Post Tax)	-	0.0	0.0	0.0	0.0	0.0
Leverage (x)	0.1	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Operating ROE	-	35.3	26.9	14.8	14.5	15.1
Returns (%)						
ROCE (Pre-tax)	15.7	31.1	27.4	15.3	15.6	16.4
Angel ROIC (Pre-tax)	26.2	45.2	38.5	22.2	23.2	24.9
ROE	35.9	38.3	30.2	17.8	17.1	17.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.5	2.2	2.3	1.8	2.0	2.1
Inventory / Sales (days)	103	78	75	90	101	117
Receivables (days)	91	114	98	98	106	107
Payables (days)	29	35	37	35	33	33
Working capital cycle (ex-cash) (days)	182	183	168	185	202	221

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Disclosure of Interest Statement

Sun Pharma

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)